

**Testimony by the California Bankers Association  
The California Performance Review Commission Hearing  
September 9, 2004**

Introduction

Good afternoon Chairs of the Commission and Commission Members. I am Alex Alanis, Legislative Advocate for the California Bankers Association.

CBA Background

The California Bankers Association (CBA), a trade association established in 1891, is one of the largest state banking trade associations in the country. CBA leads the way in developing relevant educational and legislative solutions to some of California's more pressing financial and banking issues. CBA's membership includes more than 300 of California's commercial, industrial, and community banks and savings associations in California.

CPR Support

CBA supports the California Performance Review (CPR) Commission's historic undertaking: Bringing state government into the 21<sup>st</sup> Century. CBA supports the CPR Commission's innovative and visionary approach to governing that will bring about more accountability, prioritize demands and resources, and coordinate governmental functions.

CBA agrees with the CPR Commission's view that the people of California know that government plays a vital role in our state's economy. By the same token, people do **not** want a government that is wasteful, inefficient or a burden on the economy. CBA also agrees with CPR's specific proposal to contract out the delivery of student loan guarantee administrative services, which should result in a reduction of state costs and an efficient program that delivers student loans.

CSAC and EdFund Issues

For several years, CBA members and other private lending institutions have had a positive working partnership with the California Student Aid Commission and its auxiliary, EdFund. However, this year, legislation was enacted as part of the omnibus education budget trailer bill, which, among other things, attempts to give the Student Aid Commission and EdFund broad powers to directly compete with private lending institutions currently providing student loan origination, loan servicing, and capitalization services.

We have serious concerns with this expansion of powers that may have negatively altered a long-standing relationship that private lenders have had with the Student Aid Commission and EdFund.

CBA is supportive of policies that encourage competition; however, we believe the new legislation creates an unfair and uneven playing field for private lenders. The Student Aid

Commission and EdFund's expanded powers establish a state program that has an anti-competitive advantage over its private sector lenders who currently offer student loans and provide student loan servicing.

There may be a significant incentive to direct students receiving CAL-Grant monies to the EdFund loan program, which may completely undercut private lending institutions that offer such loans today. Also, EdFund and the Student Aid Commission will be competing as a tax-free entity utilizing state and/or federal government funds while the competing private sector lenders must pay taxes on their loan profits. We believe these expanded powers are antithetical to the CPR Commission's goal of streamlining government.

### Conclusion

The question you may want to ask yourself is: Are students' financial interests better served if the state expands the powers of the Student Aid Commission and EdFund to unfairly compete with financial institutions? The answer to that question must be "no". If EdFund is allowed entry into the loan origination and servicing business, there will be no benefit to students or schools. Private lenders compete today on service, providing schools with state-of-the-art technology to simplify and accelerate loan origination, and to efficiently service outstanding loans.

Competition forces student lenders to invest and reinvest in technology. However, if the state becomes the dominant figure in this market that the private sector has performed so effectively, it will force out competition.

For these reasons, CBA supports the California Performance Review Commission's recommendation to contract out the delivery of student loan guarantee administrative services and urges the California Performance Review Commission to appropriately curtail the Student Aid Commission and EdFund's newly granted broad authoritative powers.